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ECONOMIC EQUALITY IN JAPAN

Summary

Although Japan's economy sometimes seems very different from that of other industrial countries, it manages to do quite well in spreading broadly the benefits of growth. Very few people are truly poor and, even within the large middle class, incomes are comparatively similar. Equally important, Japanese households overwhelmingly place themselves in the middle class. The country's relatively equal income distribution has been achieved without having to redistribute income extensively, suggesting that Japan has avoided the alleged trade-off between economic equality and growth.

Some Japanese analysts have stressed the potential for inequality arising from the run-up in land and stock prices in the late 1980s. This process, however, so far has resulted in relatively small changes and already may be in the early stages of reversal.

Introduction

Japan is now among the wealthiest nations on earth. Measured in national currencies at then current exchange rates, Japan's per capita income in 1988 (the most recent year for which comparable data are available) ranked third behind Switzerland and Luxembourg among the 24 member nations of the Organization for Economic Cooperation and Development; the United States ranked sixth. Once differences in price levels are taken into account, however, Japan's real income per capita still does not equal that of the United States, although it now exceeds that of a number of European nations (see Table 1).

Table 1: International Comparisons of Income

(per capita gross domestic product where United States=100*)

	1970	1975	1980	1984	1985	1986	1987
Japan	65	70	77	81	82	82	83
Great Britain	79	83	81	80	80	81	82
Canada	79	90	93	92	93	93	94
West Germany	103	105	112	110	109	109	109
France	95	102	104	102	100	100	99
Italy	62	64	68	67	67	68	68

*1980 prices and 1980 exchange rates.

Source: Organization for Economic Cooperation and Development

Of course, in Japan and elsewhere not everyone shares the bounty equally. Philosophers, economists and others have debated for centuries whether it matters how a nation's economic pie is divided. Some experts argue that equality of opportunity to get rich -- not the result -- is the appropriate basis for economic policy. They suggest that the means to achieve the end result of greater equality, typically taxes and welfare schemes, reduce the incentive to work, thereby trimming the size of the pie to be distributed. A handful go farther, suggesting that economic inequality is preferable because it puts income in the hands of those in a position to save and thereby eventually increases the total amount to be distributed.

Many others, however, believe that equality of economic result, while perhaps reducing work incentives somewhat, is a laudable objective. In part, this view stems from widespread beliefs about helping the unfortunate and, in part, from a pragmatic concern that economic activity proceeds with fewer disruptions and higher productivity if everyone has a sense that the system works to his or her benefit.

Individual Japanese may attach more weight to economic equality -- and be more prone to react negatively if apparently deprived of it unfairly -- than their counterparts elsewhere. Many analysts, both Japanese and foreign, believe that the Japanese population has a strong urge toward uniformity -- to be like one's neighbor -- as encapsulated in the Japanese saying, "a nail that sticks out gets hammered down." In an economic context, an American might call this desire "keeping up with the Joneses." In a political sense, this factor may imply increased attention to economic equality.

Repeated surveys reveal that the Japanese believe that their economic system works to put them on a par with their neighbor. Although members of a slowly expanding group regard themselves as falling within the lower class, an overwhelming number still label themselves members of the middle class (see Table 2). Supporting this prevalent view, a wide range of consumer goods are

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Table 2: Survey on Class Status

Survey Date	Upper Class	Upper-Middle Class	Middle-Middle Class	Lower-Middle Class	Lower Class	Don't Know
1960	0.4%	3.9%	40.8%	31.5%	13.6%	9.9%
1965	0.6	7.3	50.0	29.2	8.4	4.5
1970	0.6	7.8	56.8	24.9	6.6	3.3
1975	0.6	7.9	60.4	22.4	5.1	3.6
1980	0.6	7.4	54.4	27.5	6.7	3.3
1985	0.5	6.4	53.7	28.4	8.1	2.8
1989	0.5	6.7	52.1	28.5	8.8	3.3

Source: Management and Coordination Agency

within the financial means of virtually every household. For example, while many of the world's households still have to make do without their own television set, 99.4 percent of Japanese households had color TVs in 1990 and 66.8 percent had videocassette recorders, according to the Economic Planning Agency. Some experts argue that this self-perception -- and reality -- of a middle-class society has been a key to Japan's overall economic performance because it has given the general population a sense that its hard work is rewarded. In any event, as will be shown below, the causation may have worked in reverse as well; economic growth has led to more equal incomes. In that respect, Japan's experience mirrors that of other industrial nations.

Income Equality in International Perspective

In the long march of human history, not only have average incomes risen, they have become more equal, meaning that the number of poor has been reduced significantly. During the past hundred years, for example, practically every country has experienced a narrowing of differences between the poor and the rich. In addition, wealthier countries generally have more equal incomes than those that are poorer, holding out the prospect that economic development, if successful, would increase everyone's incomes. Such an outcome is dramatic rebuttal to those who argued in the 19th century that a widening gap between the haves and the have-nots would be an inevitable consequence of industrialization.

Japan is the exception that proves the rule in this story of human progress. Although arguably either the last of the original group of industrial nations or the first of the latecomers, Japan's experience matches that of other countries. By most accounts, Japan's high rate of economic growth in the postwar period brought with it not only an increase in total national income but also a narrowing of income differences, although the period also included interludes when the differential widened. Table 3 shows the results of various Economic Planning Agency calculations of income equality; generally it shows little movement since 1970, with two of the measures hitting a low (greatest

income equality) in 1979 and 1980 and the remaining two showing a slight increase in inequality between 1970 and 1989.[1]

Table 3: Measures of Income Inequality in Japan

(Gini coefficients*)

	Based on Savings Survey		Based on Family Income and Expenditure Survey	
	All Households	Wage Earners' Disposable Income	All Households	Wage Earners' Disposable Income
1970	0.2669	0.1668	0.2533	0.1787
1971	0.2748	0.1670	0.2587	0.1788
1972	0.2705	0.1672	0.2562	0.1797
1973	0.2736	0.1673	0.2606	0.1792
1974	0.2771	0.1777	0.2686	0.1879
1975	0.2742	0.1804	0.2765	0.1883
1976	0.2771	0.1746	0.2666	0.1861
1977	0.2760	0.1709	0.2578	0.1844
1978	0.2655	0.1752	0.2644	0.1879
1979	0.2679	0.1662	0.2587	0.1799
1980	0.2596	0.1677	0.2599	0.1832
1981	0.2620	0.1719	0.2592	0.1872
1982	0.2601	0.1697	0.2642	0.1872
1983	0.2652	0.1698	0.2618	0.1881
1984	0.2725	0.1700	0.2598	0.1878
1985	0.2785	0.1779	0.2713	0.1973
1986	0.2812	0.1758	0.2774	0.1965
1987	0.2845	0.1798	0.2728	0.1987
1988	0.2814	0.1787	0.2681	0.1981
1989	0.2894	0.1794	0.2726	0.1965

*Gini coefficients are a widely used measure of income inequality. They range from zero (for perfect equality) to 1 (national income is concentrated in one person). Higher figures correspond to greater inequality. For explanations of various Gini measures, see Malcom Sawyer, "Income Distribution in OECD Countries," OECD Economic Outlook Occasional Studies, July 1976, p. 19. The Economic Planning Agency's measure shows greater equality in Japan vis-a-vis other nations than do most of the alternatives discussed in Sawyer's article.

Source: Economic Planning Agency, Keizai Hakusho (Tokyo: Okura-sho Insatsu Kyokyu, 1990), p. 529.

[1]For details of income distribution during the prewar period and the postwar period through the 1970s, see Akira Ono and Tsunehiko Watanabe, "Changes in Income Equality in the Japanese Economy," in Hugh Patrick (ed.), Japanese Industrialization and Its Social Consequences (Berkeley, California: University of California Press, 1976), pp. 363-389. See also Martin Bronfenbrenner and Yasukichi Yasuba, "Economic Welfare," in Kozo Yamamura and Yasukichi Yasuba (eds.), The Political Economy of Japan, Volume I: The Domestic Transformation (Stanford, California: Stanford University Press, 1987), pp. 108-114.

By the mid-1970s Japan had another accomplishment to its credit. Although at the time incomes still lagged those in other industrial countries, they were in several instances more equal in Japan. International comparisons are difficult because nations employ varying ways of collecting data and aggregate the data in different ways to come up with measures of inequality. A mid-1970s survey that took account of these differences but had to use different years for each country found that by seven different possible measures of inequality, after-tax incomes in Japan in 1969 were more equal than those of the United States in 1972. Japan's level of inequality was generally comparable to European countries', with incomes more equal than those of France or West Germany but less than Great Britain and Sweden by most measures.[2]

The Economic Planning Agency recently compiled data on income distribution through the late 1980s. A number of analysts have cautioned that high-income Japanese households tend to underreport their income, biasing the Japanese measures toward apparent income equality. For this and other reasons the data may not accurately measure differences in inequality across countries; the figures probably are most reliable for comparisons of a given country over time (see Table 4). Bearing this caveat in mind, the EPA data suggest that recent years have shown little change in income distribution in Japan or the other countries listed.[3]

Table 4: International Comparisons of Income Equality

(Gini coefficients)

	1975	1980	1985	1986	1987	1988	1989
Japan	0.2765	0.2599	0.2713	0.2774	0.2728	0.2681	0.2726
United States	0.3348	0.3425	0.3640	0.3660	0.3656	n.a.	n.a.
Great Britain	0.3254	0.3363	0.3719	0.3796	0.3883	n.a.	n.a.
West Germany	n.a.	0.5108	0.4881	n.a.	n.a.	n.a.	n.a.

Source: Economic Planning Agency, Keizai Hakusho (Tokyo: Okura-sho Insatsu Kyokyu, 1990), p. 271.

Other data are supportive of the difficult-to-interpret Gini coefficients shown in Tables 3 and 4. Between 1980 and 1989, for example, of five

[2]Malcom Sawyer, "Income Distribution in OECD Countries," OECD Economic Outlook Occasional Studies. July 1976, p. 19.

[3]The data in Table 4 suggesting greater inequality in the United States are consistent with other data showing an increase in real per capita income between 1980 and 1988 but also an increase in the percentage of the population living in poverty. Studies of income distribution in the United States are voluminous. Two relatively recent efforts include Frank Levy, Dollars and Dreams: The Changing American Income Distribution (New York: Norton, 1987), and Charles M. Beach, "Dollars and Dreams: A Reduced Middle Class? Alternative Explanations," Journal of Human Resources, Winter 1989, pp. 162-193.

income groups in Japan, pretax incomes of those in the top group widened from being 2.65 times as high as those at the bottom to being 2.9 times as high. In the United States money incomes of those at the top of the fourth category (out of five) jumped from being 3.36 times as high as those at the top of the poorest category in 1980 to 3.67 times as high in 1987.

Sources of Inequality

Adherents of redistributing income sometimes argue as follows. Those who work for a living receive far lower incomes than those who receive income from real or financial property. This is unfair because such honest labor should receive much higher compensation. Furthermore, this difference between workers and capitalists is widening, suggesting that unfairness is also broader than previously.

The facts supporting this argument are not altogether incorrect as far as Japan is concerned. According to the 1989 Report on the Family Income and Expenditure Survey of all households, the ones in the bottom 20 percentile of the income distribution consisted mostly of people who either worked as laborers or had no jobs. By contrast, households in the top 20 percentile mostly were made up of corporate managers or corporate staff, although blue-collar workers and people who were unemployed or not in the labor force constituted 13.7 percent of this group. Among worker households, higher income groups received a larger percentage of their total income from returns on financial and nonfinancial assets. (Data on property income for nonworker households are not available on a comparable basis.)

However, the argument is wrong concerning the trend over time. At least since the mid-1970s income from labor has changed little as a percentage of Japanese national income (see Table 5). As such, the data confirm the near-stability during this period of the Gini coefficient of income. The stability of labor's relative share is even greater if individual proprietorship income, arguably partly income in-kind to family members, is classified as employee compensation instead of business income. On this basis, employee compensation as

Table 5: Distribution of National Income

	1970	1975	1980	1985	1986	1987	1988
Compensation of Employees	54.0%	67.5%	66.8%	68.8%	69.2%	69.8%	69.9%
Income from Financial and Nonfinancial Assets	8.3	10.9	10.6	9.7	10.0	9.5	9.5
Business Income*	37.7	21.6	22.6	21.4	20.8	20.7	20.6

*Private corporations, public corporations and individual proprietorships. Net of dividend receipts and payments.

Source: Economic Planning Agency, Annual Report on National Accounts (Tokyo: Okura-sho Insatsu Kyokyu, 1990), pp. 146-149.

a percentage of the total rose from 74.9 percent in 1970 to a peak of 84.1 percent in 1975 during the first oil shock before stablilizing at a value between 79.5 percent and 80.9 percent between 1980 and 1988, the latest year for which data are available.

The change -- or the lack of change -- in the distribution of income between employees and businesses, however, says relatively little by itself since the composition of the labor force also was changing. More educated or more senior workers earn higher wages than those with less education or seniority. This fact suggests that changes in the composition of the labor force may explain a substantial part of the modest reduction in income equality since 1970; Japan's increasingly old and well-educated labor force could be expected to receive higher wages, other factors, including the tightness of labor markets, remaining equal.

At least in recent years the educational factor explains a good deal of the rise in wages. More educated workers get higher wages and part of the large overall wage gain is a consequence of a higher percentage of the work force having substantial education. In fact, average overall wages would have risen during the post-war period even if the wages for a worker with a given level of education had remained the same. As shown in Table 6, if one concentrates on the wages of a male worker of a given age with a given degree of seniority and education, the rate of wage increase for both college-educated workers and those with only a high school education is less than the group of 35- to 39-year-old males as a whole. However, if one also looks at overall wages for males at all levels of seniority and wages, wage gains are the greatest of all. This implies that seniority is increasing, that the age composition of the labor force favors higher wages, or both.

The table shows that, adjusted for sex, age, experience and education, wage gains were minimal between 1985 and 1988 for both college-educated workers and high school graduates. Annual inflation, measured by the consumer price index, varied between 0.1 and 0.7 percent in the 1986-88 period, suggesting that the increases were even smaller than shown. Since real national income grew, the proportion going toward employee compensation might have shrunk had it not been for changes in the composition of the labor force.

Table 6 allows yet another dimension of income equality to be explored. Throughout most of the period studied the wages of high school graduates, controlled for seniority, sex and age, gained on those of college graduates, as shown by the generally diminishing ratio of average wages for the two groups. This suggests a more equal income distribution across groups of people with varying degrees of education.

Incomes also differ by region within Japan. As farmers' incomes have risen relative to those of other groups during the postwar period, regional differences generally have narrowed. However, wages have not shown a similar pattern. Wages in Tokyo always are the highest; compared to the lowest, they were 53 percent higher in both 1963 (when Tottori prefecture had the lowest) and 1988 (when Akita prefecture had that distinction). In the intervening years the differential varied only slightly from this figure. Of course, some of the difference is eaten up by higher living costs in Tokyo, but the low-wage prefectures generally still have outmigration, suggesting that higher prices do not completely offset the advantages of Tokyo and other high-wage areas.

Table 6: Wages for Selected Types of Workers

	1976	1985	1986	1987	1988
35- to 39-Year-Old Males With 5 to 9 Years of Experience					
College-Educated					
Wages*	Y209.8	Y301.4	Y299.9	Y300.7	Y307.0
Change**	n.a.	4.1%	-0.5%	0.2%	2.1%
High School Graduate					
Wages*	Y162.4	Y236.0	Y239.9	Y239.1	Y247.5
Change**	n.a.	4.2%	1.7%	-0.3%	3.5%
Overall***					
Wages*	Y159.7	Y246.8	Y248.2	Y250.5	Y259.5
Change**	n.a.	5.0%	0.6%	0.9%	3.6%
College-Educated as Multiple of High School Graduate Wages	1.29	1.28	1.25	1.26	1.24
All Male Workers					
Wages*	Y151.5	Y244.6	Y252.4	Y257.7	Y264.4
Change**	n.a.	5.5%	3.2%	2.1%	2.6%

*Monthly scheduled wages in thousands of yen.
**Annualized year-to-year rate for 1986, 1987 and 1988 and average annualized 1976-85 rate for 1985.
***Includes college-educated, junior college graduates, high school graduates and those with only elementary or junior high school education.

Source: Ministry of Labor, Yearbook of Labor Statistics (Tokyo: Rodo Horei Kyokai, various years).

Asset Inequality

Most European and American economists have stressed income differences as the most important dimension of economic inequality. Japanese analysts, however, increasingly focus on a different criterion: asset inequality.[4] If land, housing and financial assets are concentrated in relatively few hands, then the remainder of the population may feel disadvantaged, even if incomes in the two groups are roughly comparable.

Rising land prices have given this concern new emphasis in recent years as many households, especially young ones, have been unable to buy their own homes. (For details of Japan's housing situation, see JEI Report No. 30A, August 4, 1989.) In other instances people have been able to buy homes but not the land on which the housing sits. For example, a 1988 survey showed that of

[4]For an example, see Tachibanaki Toshiaki, "Japan's New Policy Agenda: Coping With Unequal Asset Distribution," Journal of Japanese Studies (Summer 1989), pp. 345-369.

the people owning a detached house, condominium or other unit in Tokyo, 41.7 percent owned the land as well, down 2.7 percentage points from the previous survey five years earlier.[5] According to EPA, Gini coefficients of inequality in the value of residential land holdings containing a house jumped from 0.44 in 1986 to 0.54 in 1988 before declining to 0.52 in 1989 and 1990. Similarly, the Gini coefficient of total financial assets rose steadily from 0.49 in 1981 to 0.52 in 1989.[6]

All these figures are substantially higher than the income Gini coefficients found in Tables 3 and 4. What these numbers mean is that land and financial assets are less equally distributed than income. Apparently soaring land and stock prices in the late 1980s had the effect of widening the differences. While Japanese analysts tend to view such trends with some alarm, the events of 1990 may allow them to relax some, at least on the question of financial assets. The sharp decline of the Tokyo Stock Exchange and other stock markets wiped out a significant part of the wealth of people owning securities compared to their generally poorer counterparts who keep their financial assets in the form of savings accounts; that helped reduce inequality of financial assets. If, as many analysts believe, land prices are likely to at least level off, more people may be able to afford to buy land and a house, spreading the distribution of these assets more evenly.

Unequal asset distribution is not confined to Japan. According to the Department of Commerce's Bureau of the Census, the wealthiest 3 percent of American households hold approximately 27 percent of the net worth in the United States, although Census says that it observed little change in these 1988 figures and those in its earlier survey for 1984. These figures are not directly comparable to the ones cited above for Japan, but few people should be surprised by the apparent result that the concentration of wealth is more constant in this country than in Japan. Land constitutes a smaller percentage of total wealth in the United States, and both real assets and financial assets have fluctuated less in value in recent years than in Japan.

Equality in a Broader Perspective

Having relatively equal incomes does not ensure economic equality in the broader sense. Obviously, equal ability to earn income -- as a result of access to education, financial and nonfinancial assets or for other reasons -- also is important. High-quality education is almost universally available in Japan, although access to the best schools is sharply limited. A high savings rate has given many Japanese households a stake in financial markets, even if asset distribution is uneven. Important groups, of which women constitute the largest, are denied full opportunity, however, to pursue economic gain.

Japan's relatively undeveloped public infrastructure and low level of publicly provided services may reduce that country's economic equality compared to that of other nations. Americans, for example, have readier access to good

[5]Management and Coordination Agency, Jutaku Tokei Chosa, as cited in Economic Planning Agency, Keizai Hakusho (Tokyo: Okura-sho Insatsu-kyoku, 1990), p. 263.

[6]Ibid., p. 528.

public libaries than do their Japanese counterparts. Similarly, urban park space is scarcer in Japan. New York City, for example, has nine times the park-land per capita of Tokyo while Paris has almost six times as much. Japanese households also pay a higher proportion of the total educational costs of their own children than their American counterparts, but they receive more help from their government and employers in meeting medical costs.

Implications of Japan's Inequality

On balance, the figures suggest that the benefits of Japan's strong postwar economic performance have been widely shared. This result, as noted above, has ample historic precedent: greater equality typically is the result of economic growth, particularly for countries joining the ranks of industrial-ized nations.

Japan has achieved a measure of economic equality -- both on a pretax and an after-tax basis -- without unusual resort to welfare schemes that tax the rich to aid the poor. Government outlays as a percentage of gross national product came to 32.9 percent in 1988, the lowest except for Switzerland of any of the 18 reporting OECD countries. Similarly, Japan's government receipts represented 34.3 percent of GNP, second lowest behind the United States. By contrast, Sweden, a country widely regarded as having a relatively equal income distribution, had government outlays of 59.4 percent of GNP and receipts of 61.9 percent.

In addition, the results for Japan may surprise analysts who have claim-ed that economic policies in Japan have been directed toward the producer rath-er than the consumer. For example, rather than encouraging competition and the low prices that it would bring, economic policies supposedly are directed to-ward protecting firms and their profits, even at the expense of competition. This line of reasoning would appear to suggest that incomes are more unequal in Japan than elsewhere since high profits would concentrate incomes in the hands of relatively few producers. This argument is belied by the facts; incomes probably are more equal in Japan than in the United States, although they may be more unequal than in some European countries.

While Japanese economic policymakers in fact may have been more oriented toward the producer than the consumer, the dichotomy is not relevant because virtually everyone is both a producer and a consumer. Protected firms can pay their workers higher wages or invest in more or improved capacity, leading to higher production, lower consumer prices and increased labor demand down the road. Moreover, some policies have favored industries or firms that otherwise would have contracted. These measures, which involved picking "losers," may have had the additional effect of minimizing wage declines in the affected in-dustries.

The results for Japan also demonstate the importance of education. As noted in Table 6, wages in Japan went up in large measure because of structural changes in the labor force; workers received more education and got older. Al-though the table suggests that college graduates actually had years of declin-ing nominal wages once the effect of seniority is removed, the increase in the number of workers with higher education was enough to pull up overall nominal wages. In addition, the large rise in college graduates appeared to improve the supply-demand balance for those without college degrees; as high school

graduates became relatively scarce, their incomes relative to those of college graduates rose. For the United States, with its problems of finding meaningful work for those without advanced education, this finding is potentially significant.

Some widely held beliefs get little support from the results for Japan. Since at least the early 19th century, some economists have believed that a high savings rate depends on an unequal income distribution. They have based their argument on the theory that only the relatively affluent can afford to save. In Japan, as in other countries, the data appear to show that savings rates are higher for the wealthy; in 1987 the highest income group saved as much as twice as high a percentage of their income as those in the poorest group. Yet Japan has among the world's highest personal savings rates and an income distribution arguably more even than in most other countries; that suggests that an unequal income distribution is not necessary for a high savings rate.

This conclusion on savings leads to an important caveat in interpreting the data. To some extent high incomes and savings rates reflect a stage in an individual's life, a typical example being a family with the principal breadwinner in his or her peak earning years saving for the children's education and marriage expenses. As Japan's society ages, people in this stage of their life will decline as a percentage of the population, arguably reducing both income differentials and overall savings rates.

Conclusion

The relative equality of incomes in Japan should be somewhat reassuring to Americans. The conventional wisdom that Japanese multinational corporations have virtually unlimited funds to buy whatever they want at home or abroad might lead to the conclusion that the Japanese consumer/wage earner is getting the short end of the stick, but studies of income suggest that the individual Japanese probably is getting his or her share as well. This finding indicates that, for all the apparent differences, in many critical respects the Japanese economy is not as dissimilar from that of other industrial nations as it appears.

For further information, contact Douglas Ostrom.

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NOTE

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